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Business in Nebraska

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Prepared by the Bureau of Business Research, 200 College of Business Administration, University of Nebraska-Lincoln, Lincoln, NE 68588-0406, 402/472-2334

Your Financial Partner in an Expanding Global Market–Your Nebraska Bank

Tom Olson
President, Lisco State Bank

All businesses–small and large, urban and rural–must consider themselves in the context of a changing global market. A dependable financial partner is important in pursuing global market opportunities. Your Nebraska bank can be that financial partner and a source of information about alternative funding sources.

There are many financing alternatives available to Nebraska businesses. These alternatives include the traditional bank or other financial institution loan, private loans from friends or family, plus many government programs designed to finance new or existing business ventures.

The search for financing begins with conventional forms of financing such as banks, savings and loan institutions, and relatives. There are many state and federal financial assistance programs, quasipublic organizations, private organizations, and special interest group financing, however, that also should be explored. Your Nebraska bank can assist in this effort.

Private Sources

Conventional Loans

Nebraska banks are in a strong position to provide financial assistance to sound business ventures.

During the 1980s, Nebraska banks felt the economic downturn due to the agricultural recession. Nebraska banks have recovered. The capital to asset ratio increased 10.1 percent in 1989. This increase compares favorably to the national gain of 9.4 percent in 1989.

Another important index of bank performance is return on assets. Nebraska banks averaged a 1.2 percent return on assets for the first quarter of 1990, while the return on assets for banks nationwide was 0.71 percent.

Nebraska banks are well capitalized. Their performance records show profitability. Therefore, Nebraska banks can be strong financial partners in global market opportunities.

State Economic Scoreboard

Change from same month one year ago
See Review and Outlook for more details

	State	Metro+	Nonmetro
Motor Vehicle Sales (November) Constant $	↓ -6.7%	↓ -10.9%	↓ -3.4%
Nonmotor Vehicle Sales (November) Constant $	↓ -1.3%	↑ 0.9%	↓ -3.4%
Building Activity (November) Constant $	↓ -4.8%	↓ -15.9%	↑ 8.2%
Employment (January)	↑ 2.1%	↑ 1.7%	↑ 2.4%
Unemployment Rate* (January)	↓ 2.7%	↓ 2.5%	↓ 2.9%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago

Equity Financing

Equity financing is an option for the individual or a business not strong enough financially to acquire a conventional loan. Equity financing involves dividing ownership of the business among investors. In other words, part ownership in the business is given in exchange for funds. The investors may or may not participate in running the business. The conditions of an equity financing arrangement should be considered before signing any agreement, because such conditions can reduce flexibility in decision making.

Venture Capital

Another source of private financing is venture capital. Numerous private investors engage in venture capital financing with the expectation of large returns. These investors not only expect a good return on their money, but also want an equity position in the company. Venture capitalists are willing to accept additional risk in return for large profit.

Public Sources

There are several state programs in Nebraska that can be helpful in financing a business.

Nebraska Research and Development Authority (NRDA)

The NRDA has the authority to fund applied research, development, incubation, and commercial projects that have identifiable potential for the Nebraska economy.

Nebraska Investment Finance Authority (NIFA)

NIFA is an independent, nonprofit, quasistate agency that provides low cost financing for manufacturing facilities, certain farm property, health care facilities, and residential developments.

Industrial Development Revenue Bonds

Industrial development revenue bonds can assist development in Nebraska by providing low cost financing for eligible projects through tax exempt bonds. These bonds usually are limited to manufacturing projects (production, processing, or assembly of raw and processed goods) and warehousing.

Community Development Block Grants

This program provides grants to communities to assist businesses that generate wealth by bringing new income into (or reducing the loss of income from) the state and provides jobs, mostly for low and moderate income persons.

Ethanol Plant Construction Assistance

The Ethanol Authority and Development Board provides equity financing for expanded use of Nebraska agricultural products, efficient and less polluting energy sources, development of a more efficiently stored and marketed protein, and alternative outlets for Nebraska agricultural products.

Small Business Administration (SBA)

A source familiar to Nebraskans is the Small Business Administration, U.S. Department of Commerce. The SBA provides direct and guaranteed loans to small businesses that are unable to obtain financing in the private marketplace. Most commercial banks and savings and loans institutions utilize the SBA programs for their business customers.

SBA also has an extension program for export financing. In addition to SBA's traditional loan program, SBA offers the 504 loan program that assists small businesses by providing long-term financing for fixed assets. SBA provides physical disaster loans and economic injury disaster loans.

Farmers Home Administration (FmHA) Business and Industrial Guaranteed Loans

The Farmers Home Administration, U.S. Department of Agriculture, helps to create and maintain employment and improve the economic and environmental climate of rural communities. FmHA guarantees loans for business and industrial acquisitions; construction, conversion, enlargement, repair, and modernization; purchase of land, machinery, and equipment; processing and marketing facilities; start-up and working capital; and pollution control.

Public Financial Programs for International Trade

SBA

The Small Business Administration (SBA) offers a revolving line of credit to assist small businesses in exporting their products and services. Any number of withdrawals and repayments can be made, as long as the dollar limit of the line is not exceeded and the disbursements are made within a stated maturity period.

To be eligible, applicants must qualify under the SBA size standard and meet other eligibility criteria applicable to all SBA loans. The proceeds may be used to finance labor and materials needed for manufacturing or purchasing goods or services for export and to develop foreign markets.

This financing is available only under SBA's guaranteed loan program; a prospective applicant should review the export financing needs of the business with his or her Nebraska bank. If the bank is unable or unwilling to make the loan directly, the possibilities of SBA participation should be explored.

The SBA also has an international trade loan program that assists small businesses presently engaged or preparing to engage in international trade and small businesses adversely affected by competition from imports. Loans are made through lending institutions under SBA's guaranteed loan program. Proceeds may be used for working capital, facilities, or equipment.

Commodity Credit Corporation (CCC)

One of the more familiar programs is the U.S. Department of Agriculture Commodity Credit Corporation (CCC) Commercial Export Program. This program provides short-term financing of U.S. agricultural commodities, enabling U.S. exporters to sell on a deferred payment basis.

The program is designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to three years. In every transaction, the foreign buyer's bank must issue an irrevocable letter of credit covering the port of value of the commodity exported. CCC's guarantee

will cover most of the amount owed to the U.S. bank in case the foreign bank defaults.

Food for Peace

The U.S. Department of Agriculture also has a Food for Peace program, more commonly referred to as PL-480. Current emphasis is on food aid on concessional terms and, in some instances, grants. PL-480 also expands markets for U.S. agricultural commodities and promotes economic development by increasing access of the poor to a growing and improving food supply.

PL-480 provides food relief to countries stricken by natural disaster or other emergency. Exporters should apply to the PL-480 operations division for approval as an eligible supplier.

Other

Other financing vehicles include the Export-Import Bank, Foreign Credit Insurance Association, Overseas Private Investment Corporation, International Development Cooperation Agency, World Bank Group, Inter-American Development Bank, Asian Development Bank, and the African Development Bank Group.

Conclusion

Your Nebraska banker, with the assistance of SBA and other agencies, can be a partner in your business operations. These institutions and agencies can help you determine whether your production can be geared for a foreign market and whether you have the financial ability to expand.

Resource counseling is available from the U.S. Department of Commerce, the Nebraska Department of Economic Development, correspondent banks in Nebraska with international divisions, and the Midwest International Trade Association, as well as from a number of private sector advisors.

This article is excerpted from a longer address originally presented at the Bureau's State of the State Conference on December 6, 1990 in Scottsbluff.

Material from ***Guide to Doing Business in Nebraska,*** *published by the Nebraska Department of Economic Development, was used in preparing this article. The Department of Economic Development is developing a directory of business assistance programs in Nebraska for distribution in April 1991.*

The Business Incubator–A Rural Economic Development Tool

Raymond A. Marquardt
UNL Agribusiness Program Director and Professor of Marketing
Steven A. Schulz
Graduate Assistant, UNL Department of Marketing

In the 1980s universities and economic development agencies encouraged the establishment of business incubators to bolster economic development. Business incubators are designed to cultivate the formation of new business ventures in an environment conducive to success.

Business Incubator Inputs and Outputs

Incubators seek to give structure and credibility to start-up or emerging ventures by providing four types of resources: secretarial support, administrative assistance, facilities support, and business expertise (including management, marketing, accounting, and finance).

The business incubator allows aspiring entrepreneurs, or tenants, more freedom to be creative–entrepreneurs can devote their time and energy to product or service development rather than to management or financial concerns. Shared support can reduce the overall level of financing required for an individual firm. Figure 1 illustrates the inputs and outputs of the business incubator.

The incubator can accelerate the learning process for entrepreneurs through workshops and training activities that focus on business strategies and formulas for success. The incubator can provide access to networks of suppliers and sources of information, thereby enabling tenants to target problems and identify and implement solutions quickly and efficiently.

Numerous authorities believe that rural economic development depends upon rural entrepreneurship. *Rural entrepreneurship* is defined as the creation of an organization that introduces a new product or service, creates a new market, or brings new technology to the rural environment.

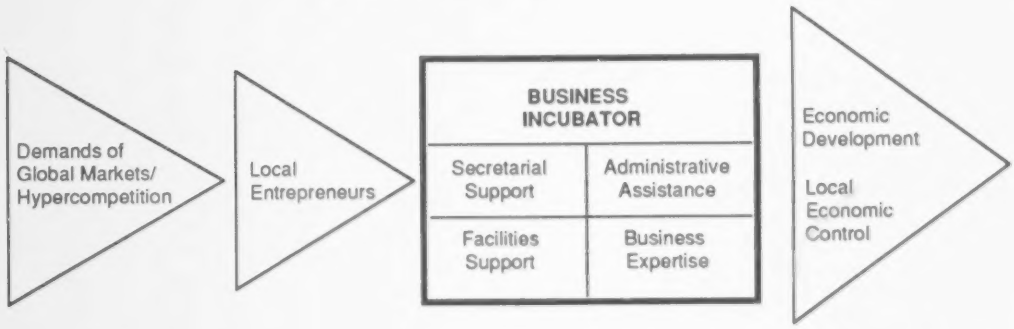
The nation's farm resident population decreased approximately one million persons in the 1980s, continuing a long-term trend. The number of large farms (those grossing over $500,000 annually) grew 15 percent between 1982 and 1987, but the numbers of all other size farm operations fell.

In the face of decreasing farm employment, falling farm earnings, and leveling farm property values, the rural economy must encourage the formation of new firms and the expansion of existing firms to maintain current levels of employment. Off-farm employment must be facilitated to maintain or expand rural population and per capita income.

Any locale must maintain its population and per capita income in order to generate taxes for municipal services such as utilities, roads, and schools. Increased rural entrepreneurial activity can be an important source of off-farm employment.

The business incubator appears to have a future in rural areas. Statistics reveal that in 1990, 28 percent of active incubators were located in rural areas. (*Rural* is defined in this article as a county with a population of fewer than

Figure 1
Inputs and Outputs of Business Incubators



50,000 residents.) The average rural incubator contains approximately 30,000 square feet of renovated space and houses seven tenant companies.

The total number of incubators in the U.S. has increased ninefold since 1984 to over 400 in 1990. Although differences exist between rural and urban incubators, the average age of each is 4.3 years. This statistic indicates that rural incubators currently are as viable as their urban counterparts.

Critical Factors in Incubator Development

It is important that individuals involved in rural economic development understand the factors that are critical to the performance of business incubators (Figure 2). The more extensively these factors are incorporated into an incubator, the greater is the likelihood that the incubator will contribute to overall economic development efforts.

On-Site Business Network

Entrepreneurship requires relationships with individuals and institutions. The successful entrepreneur requires access to sources of ideas, to information, and to raw materials. The knowledge that is available in incubators may be leveraged into tenant companies through:

- An incubator director or president who brings management and marketing experience to the incubator;
- A board of directors with a range of expertise that can be shared with tenant companies;
- An advisory council of key professionals to whom tenant companies have access;
- A network of consultants and suppliers providing services and materials, often on a favorable fee basis.

Access to Financing and Capitalization

The necessary access to financing includes evaluation of financial options, access to loans and grants, loan packaging, and introduction to venture capitalists. Most venture capital firms prefer to invest in companies with proven management and demonstrated market competence.

Incubators can provide important links to the venture capital community by focusing early attention on tenant companies, by making introductions as the companies prove themselves in the marketplace, and by educating the tenant companies in the venture capital process.

Incubators can provide indirect access to start-up capital by obtaining funds from community, state, and federal sources and passing some of these resources to the tenant companies in the form of lower rents and lower fees for services.

More than 60 percent of all incubators receive financial assistance from local governments, but local financial support is not entirely from public agencies. Private sources provide financial assistance to nearly 70 percent of incubators.

More than 40 percent receive funding from local economic development organizations or private industrial councils. More than 35 percent of all incubators receive support from local chambers of commerce. Industrial revenue bonds provide funding to more than 5 percent of incubators.

State and federal governments frequently combine with local agencies to provide additional funding for incubators. More than 60 percent of incubators receive financial support from state agencies. State revolving loan funds are used by 25 percent of all incubators. Common sources of federal financial assistance are the Economic Development Administration, the Community Development Block Grant program, and the Job Training Partnership Act.

Multiple sources of financing are required to meet the annual operating budgets and salaries and to establish the physical facilities needed by an incubator. Operating costs vary by the type of incubator, but the median annual expenditure is $85,000.

In addition, median annual salary expenses are approximately $40,000. Salary costs vary considerably relative to the scope, purpose, and location of the incubator. The cost of the physical facilities range from several thousand dollars for a donated vacant building to millions of dollars for a new high technology facility.

Shared Support

Incubators provide tenants with shared support services that, in turn, can reduce the level of financing required. Secretarial services include word processing, photocopying, and receptionist

duties. Administrative services include contract administration and bookkeeping. Shared facilities services include security, conference rooms, computers and other equipment, parking facilities, and custodial services. The incubator also may provide expertise in the management, marketing, accounting, or finance segments of the tenant firm.

Perception of Success

Private capital and entrepreneurial talent only will flow into the most attractive projects. An attractive facility, affiliation with key institutions, an experienced incubator manager, a noted advisory council, a group of promising start-up companies, and successful firm expansion records all contribute to the perception of success.

Selection Process for Tenants

Clear selection criteria improve the chances of incubator success. Criteria for tenant selection vary with the objectives of the incubator. Because job creation and/or economic development is the primary objective of 80 percent of incubators, common criteria used to select tenants are:

- Ability to create new jobs;
- Ability to pay operating costs;
- A concise business plan that includes a cash flow statement and a market analysis;
- A unique opportunity;
- Growth potential;
- Specific industry focus (e.g., light manufacturing, high technology, professional services, etc.).

Concise Program Milestones with Clear Policies and Procedures

Incubator management must inform tenants of the criteria under which their performance will be evaluated and of the incubator's policies and operating procedures. Tenants must be aware of the expectations placed upon them, the resources available to meet these expectations, and the standard procedures for day-to-day operations.

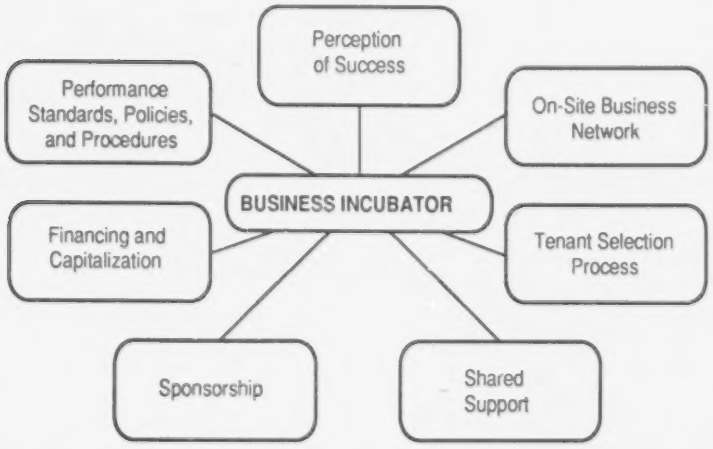
An especially important criterion is the length of time a tenant may occupy the incubator. The time limit should be established prior to a tenant's entrance into the incubator. The length of time will vary in relation to supply and demand for space, but should be consistent for all tenants entering the incubator at the same time. More than 75 percent of the companies spawned by incubators have occupied positions within the incubator environment for less than three years.

Sponsorship

Economic development agencies, local technical schools and community colleges, local governments, and for-profit organizations presently take the most active roles in sponsoring rural business incubators. Many active incubators have more than one sponsor. Three to four sponsors are recommended for new incubators.

Approximately 35 percent of active incubators have ties to local universities, colleges, or technical schools. Such ties provide access to research facilities, workshops, ideas, and student labor. Links with incubators allow commercial applications of the basic research conducted in these institutions to be developed.

Figure 2
Factors Critical to Incubator Development



Incorporating Incubators into Economic Development Plans

Industrial relocation tends to be a zero-sum game in which one region benefits only at the expense of another. Encouraging the growth of native companies can be a more beneficial long-term economic development strategy because such a strategy harnesses local entrepreneurial talent and keeps this talent within the community.

Growing local companies can enhance economic diversification by creating a climate within the area that rewards productivity and innovation. Finally, growth of native companies can add economic value to a region and promote local control of the economy.

Specific industries with the potential to succeed in a rural business incubator include light and heavy manufacturing, direct mail, research and development, sales and marketing, and high technology. In the agribusiness area, companies involved in plant and animal biotechnology, pharmaceuticals, herbicides, pesticides, water treatment, food products, and aquaculture offer the most potential for success.

Conclusion

It is too early to compare the survival rate of firms raised in an incubator environment to the one-in-five survival rate for small businesses after the standard five year development cycle. The performance of incubator firms to date, however, has been encouraging.

It is vital that rural incubator-raised firms perform successfully outside the incubator to add support to the rural infrastructure and to assist production agriculture if such firms are to remain competitive in the world marketplace.

Land, Labor, Capital, and . . . the Entrepreneur?

Todd A. Weber
Undergraduate Research Associate, UNL Bureau of Business Research

How brightly the entrepreneurial flame burns in Nebraska is a question of interest to many Nebraska business leaders and economists. The answer, based on a Gallup survey and some basic research, is that the flame does burn, but that the activities of an entrepreneur need nurturing and encouragement. This article describes the role of today's entrepreneur and offers some recommendations on how entrepreneurship can be encouraged in state colleges and universities.

Today's Entrepreneur

The entrepreneur historically has been viewed as an economic hero who started a new business such as a small store in a mall or a manufacturing plant on the outskirts of the city. The entrepreneur was considered to be a highly independent person willing to take risks in the pursuit of success. Entrepreneurs were thought to have inherent traits that fueled the entrepreneurial flame. Today experts paint a new picture of the entrepreneur.

John Case, of *Inc.*, and Gilbert Zoghlin, of *Personnel Administrator*, agree that successful emerging entrepreneurs are neither creating new businesses nor designing new products. According to *The Wall Street Journal* (November 17, 1987), "discharged executives are starting their own businesses at more than twice the rate they did two years ago."

This trend makes sense in today's competitive global economy. Starting a new business involves an established network of contacts and knowledge of the customers, suppliers, partners, and sources of capital. The entrepreneur must know the ins and outs of the business in order to be successful. Case feels that entrepreneurs are made by the changing marketplace, not born.

C.K. Prahalad, Vladimar Pucik, and Paul Thorne see today's entrepreneurs as *intrapreneurs*. Thorne describes the intrapreneur as "the entrepreneur grows a business of his own,... the intrapreneur, (generally) a large company employee, grows one for others, mainly his employer." Innovation is not reserved for small business, but is becoming a common activity in larger firms.

It is important to recognize the source of entrepreneurs. Whether they are departing executives or innovative middle managers for a multinational company, entrepreneurs need to be allowed to make what they can of the situation.

Table 1
Survey Demographics

	Occurrence Rate (%)	
	Nebraska	National
Class Standing		
Freshman	23	22
Sophomore	22	25
Junior	29	25
Senior	25	28
Sex		
Male	53	51
Female	47	49
Region of U.S.		
Northeast	*	16
South Central	*	32
North Central	*	29
West	*	23

The percentages may not total 100 due to rounding

The Survey

This article is based on a survey that was conducted in the spring of 1990 by the Nebraska Center for Entrepreneurship of the College of Business Administration at the University of Nebraska-Lincoln. Data were collected by random phone calls: 203 in Nebraska and 233 nationally.

The survey was prepared by SRI Gallup, but the overall structure of the questionnaire was developed by the Nebraska Center for Entrepreneurship. The survey participants were students in grades nine through twelve.

Findings

The main purpose of the survey was to compare the entrepreneurial tendencies of Nebraska high school students with those of high school students nationally. Table 1 provides some information on the participants in the Gallup survey. (The national survey encompassed every state, including Nebraska, based on population distribution.)

Survey participants were evenly distributed. Both Nebraska and national participants were composed of nearly 50 percent men and 50 percent women. Additionally, each high school class–freshman, sophomore, junior, and senior–accounted for approximately one quarter of the surveyed students. Some of the statistical results of the survey are highlighted in Table 2.

Many of the Nebraska responses did not vary significantly from those of students nationwide. For example, 40 percent of both national and Nebraska students had owned their own business in the past, where a lemonade stand or a newspaper route were considered to be self-owned businesses.

Table 2
Survey Highlights

	Occurrence Rate (%) Nebraska	National
Percentage of students who have owned their own business in the past. This could include anything from a lemonade stand to a newspaper route	40	40
Percentage of students who were holding part-time jobs at the time of the survey	62	43
Percentage of students who rate the availability of more opportunities as "very important" when deciding whether to move to another state after high school graduation	48	51
Percentage of students who plan to attend a place of higher education their first year after high school	83	79
Percentage of students who plan to attend a university or college their first year after graduation	70	57
Percentage of students who plan to attend a community college or technical school their first year after graduation	13	22
Percentage of students when surveyed on a scale of 1 to 5 (5 being very likely) who rated the likelihood of owning their own business in the future as 4 or a 5	29	37
Percentage of students who plan to be self-employed ten years after graduation from high school	18	23
Percentage of students who plan to be employed by a company ten years after graduating from high school	60	54
When asked, "If you were to own a business, which of the following best describes how you might go about it?"		
Percentage of students who said they would join a partnership or corporation	54	41
Percentage of students who said they would start their own business	21	31

Each of the highlighted statements indicate statistically different percentage responses for Nebraska and the U.S. The statistical test for differences reflects a 95 percent confidence level in the test results

The results show only a 5 percent difference in the responses regarding whether students plan to be self-employed ten years after high school. Due to the size of the survey sample, the 5 percent difference is not statistically significant. We cannot say with confidence that fewer Nebraskans want to be self-employed in ten years.

The statistics that did differ significantly offer some insight into how Nebraskans, and perhaps Midwestern youth in general, differ from the national sample.

Nearly 1.5 times more Nebraska high school students were employed part-time than their peers nationwide. This statistic may reflect the work ethic of Nebraska youth. Employers often say that they are impressed with the work ethic of Midwestern employees.

The second significant result of the survey is that many Nebraska students plan to attend a four year institution, as opposed to a technical school or community college. This result may be credited to the relative ease of admission to four year state schools in Nebraska, the emphasis on four year college education by parents and high school teachers, and the difficulty in transferring community college credit to Nebraska's four year institutions.

Counselors in the public schools may leave most Nebraska students with the impression that a four year college degree

is critical to future success. Parents tend to reinforce this concept because they want what they feel is best for their children.

This impression impacts the state's community colleges because of the difficulty in transferring credit. Credit transfer difficulties reduce the worth of community college degrees for those who plan to further their education.

The last significant difference in the poll is the willingness to take risks. The survey results show that Nebraska high school students would rather join a corporation than start their own business. At first glance, this statistic seems to indicate a lack of entrepreneurial tendencies on the part of our students.

But considering that many of today's entrepreneurs are the departing executives or the innovative middle managers (intrapreneurs), Nebraska entrepreneurs may have a slight edge due to the desire initially to be part of a corporation.

Recommendations

The survey findings and recent research suggest several avenues for encouraging entrepreneurship in Nebraska youth.

Because of the large number of Nebraska high school students who enroll in four year institutions, a general course on entrepreneurship offered by these institutions would be beneficial.

Expanding the community college system to include entrepreneurial courses also would help.

Of those Nebraska high school students surveyed who planned to attend a community college or technical school, 52 percent said they were likely to own a business in the state, while only 25 percent of the Nebraska students who planned to attend a four year institution responded similarly. Offering classes on entrepreneurship in community colleges and technical schools could stimulate the growth of new businesses in rural communities.

The best way to fuel entrepreneurship in Nebraska is to allow everyone to follow his or her dream. With some encouragement, the stifled entrepreneurial flame in Nebraska once again could glow brightly.

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Special thanks to Robin Anderson, Director of the Nebraska Center for Entrepreneurship, for his guidance in the preparation of the survey.

Review and Outlook

John S. Austin
Research Associate, UNL Bureau of Business Research

National Economy

Mini-boom?

With the war in the Middle East at an end, the possibility of our current recession being short and shallow has increased substantially. The question now is what are the chances that the recession may end with a mini-boom? I think the odds of a mini-boom occurring are small, but positive. There are many things that must fit into place in order to create a growth surge.

Some factors needed to support a mini-boom already exist:

- The war is over; however, there must be no restart of the war effort.
- The Kuwait rebuilding effort may bring some extra money into the U.S. economy. Initially, the impact on the U.S. will be focused narrowly on large U.S. construction companies that have established a presence in the Middle East. Thus, the direct employment impact on our economy likely will be small. Indirect employment benefits could be significant, however, because of goods and materials purchased by U.S. construction companies operating in Kuwait.
- U.S. Defense Department orders for replacement of weapons used during the war will be a stimulus. As one example, the Patriot missile plant in Florida was scheduled to be closed. Instead, large new orders have been placed there. Furthermore, a new positive view toward the military could trigger increased defense spending for the next several years.
- Low interest rates and low prices will stimulate the economy. Now is a good time to buy, especially items that usually are financed (such as houses) and durable goods (such as automobiles). These industries have suffered most in the current recession, and buyers will find that sellers are interested in moving their products.

Even if the mini-boom were to occur, there remains a question of whether this

boom could be sustained. Frankly, I doubt it. The long-run trends in our economy likely will work against a return to the rapid growth rates such as those seen in the 1960s and 1970s. Instead, underlying demographics and other factors argue that our long-term growth rates will be 2.5 percent to 3.0 percent for the balance of this decade.

Harbingers of a Return to Growth

What are some of the signs that indicate that the recession is ending? Consumer spending is vital. Consumer spending accounts for two-thirds of total spending in our economy. A reversal of the recession without a reversal of consumer spending is nearly impossible.

A key ingredient to any return to growth is a resurgence of consumer confidence. The drop in consumer confidence from August to January was extreme. The Middle East war precipitated the drop in confidence. We hope the ensuing peace will rebuild consumer confidence rapidly. One of the two national indexes of consumer confidence, the Conference Board Survey, increased slightly in February.

A critical part of consumer spending is automobile sales. Auto sales took a nose dive early in the recession. Domestic producers have idled several U.S. plants. Chrysler Corporation announced in February a full shutdown of all production for one week. Such action is unprecedented. A reversal of fortunes in the automobile industry is essential. Increased auto sales will lead to increased production and employment. Automobile sales long have been viewed as a gauge of overall consumer spending plans.

Housing starts are another important variable to watch. We must be cautious about this variable, as housing starts for the early months of the year easily can be distorted by weather factors. A single month increase is not enough to signal a reversal. Nevertheless, conditions are favorable for a rebound in housing. Increased consumer confidence and low interest rates should stimulate residential construction activity. Mortgage rates are

Table I
National Indicators

	Annual		Quarterly (SAAR)				
	1989	1990	1989:IV	1990:I	1990:II	1990:III	1990:IV
Real GNP (% change)	2.5	0.9	0.3	1.7	0.4	1.4	-2.0
Real Consumption (% change)	1.9	1.0	-0.8	1.1	0.2	2.7	-2.9
Housing Starts (millions)	1.3	1.2	1.3	1.4	1.2	1.1	1.0
Auto Sales (millions)	9.9	9.5	8.7	9.7	9.5	9.7	8.9
Interest Rate (90 day T-bill)	8.1	7.5	7.6	7.8	7.8	7.5	7.0
Unemployment Rate (%)	5.3	5.5	5.3	5.3	5.3	5.6	5.9
Money Supply, M2 (% change)	3.7	5.1	7.1	6.4	3.2	3.1	1.8
Industrial Production Index (1987=100)	108.1	109.1	108.1	108.3	109.4	110.5	108.2

NOTE: SAAR—seasonally adjusted at annual rates
Source: Bureau of Economic Analysis

Table II
Employment in Nebraska

	Revised December 1990	Preliminary January 1991	January % Change vs. Year Ago
Place of Work			
Nonfarm	749,907	737,399	4.7
Manufacturing	101,089	100,744	4.6
Durables	49,456	49,441	2.7
Nondurables	51,633	51,303	6.5
Mining	1,591	1,397	12.5
Construction	27,407	25,089	12.9
TCU*	46,309	45,884	0.7
Trade	192,109	188,073	3.4
Wholesale	51,070	51,306	-1.6
Retail	141,039	136,767	5.3
FIRE**	48,734	49,107	2.5
Services	185,302	183,253	7.9
Government	147,366	143,852	3.2
Place of Residence			
Civilian Labor Force	840,284	839,094	0.1
Unemployment Rate	1.9	2.7	

* Transportation, Communication, and Utilities
** Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	January 1991	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U*			
(1982-84 = 100)			
All Items	134.6	5.7	5.7
Commodities	126.0	5.1	5.1
Services	143.8	6.2	6.2
Producer Price Index			
(1982 = 100)			
Finished Goods	121.9	3.7	3.7
Intermediate Materials	116.4	2.6	2.6
Crude Materials	113.8	6.7	6.7
Ag Index of Prices Received			
(1977 = 100)			
Nebraska	150	-7.4	-7.4
Crops	109	-14.8	-14.8
Livestock	177	-3.3	-3.3
United States	144	-6.5	-6.5
Crops	122	-9.6	-9.6
Livestock	165	-4.1	-4.1

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics, Nebraska Department of Agriculture

relatively low. Furthermore, builders have slack capacity and are looking for business. Thus, a sudden increase in demand for housing can be accommodated easily.

What other signs may signal a recovery? The Industrial Production Index is a barometer of overall industrial health. That index has been impacted dramatically by changes in automobile production. Increased defense orders will add to industrial strength.

Investment in business equipment has been considered as a possible area for a sudden resurgence. This category of spending is generally not a leader from a recession, but perhaps this recession recovery will be an exception.

Good net export figures will help. Recently, net exports have been favorable to the U.S. Low exchange rates have stimulated exports.

The federal government will be a source of stimulus for the economy for some time to come while defense purchases are up. Concern soon will be refocused, however, on the size of the burgeoning federal deficit.

There has been some concern about money availability. Although money supply growth may be described as slack in recent months, this slackness is simply a reflection of an overall weakness in demand within the economy. Funds currently are available at relatively low interest rates.

One caution. You virtually can ignore the leading national economic indicators. They don't lead, and they don't indicate. Most economists believe it takes three months to five months of continued increases in the leading indicators to establish a new trend. By the time this occurs, a reversal is underway.

Nebraska Outlook

1990 was a good year for construction in Nebraska, as we have previously noted. According to the F.W. Dodge report, construction in January 1991 is down 14 percent compared to January 1990. Don't be alarmed. History shows that such a pattern can be reversed quickly.

There is fairly good news on the agricultural scene. Our previous forecast was that net farm income would decrease

Table IV
City Business Indicators
November 1990 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	3.4	-1.3
Alliance	3.1	58.2
Beatrice	3.4	53.5
Bellevue	0.5	-55.2
Blair	0.5	0.6
Broken Bow	3.0	1,083.6
Chadron	12.5	71.1
Columbus	5.4	4.8
Fairbury	1.9	-83.6
Falls City	8.1	37.6
Fremont	7.1	-30.5
Grand Island	5.0	6.9
Hastings	5.3	32.1
Holdrege	3.2	67.7
Kearney	4.9	27.6
Lexington	8.2	78.1
Lincoln	1.5	-6.2
McCook	1.4	-63.0
Nebraska City	-1.8	-70.9
Norfolk	8.4	-31.9
North Platte	9.4	202.4
Ogallala	8.7	-24.5
Omaha	0.7	-12.4
Scottsbluff/Gering	4.2	-12.4
Seward	5.8	11.1
Sidney	5.4	918.3
South Sioux City	-1.1	-43.9
York	9.9	194.3

(1) As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2) Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

Figure I
City Business Index
November 1990 Percent Change from Year Ago

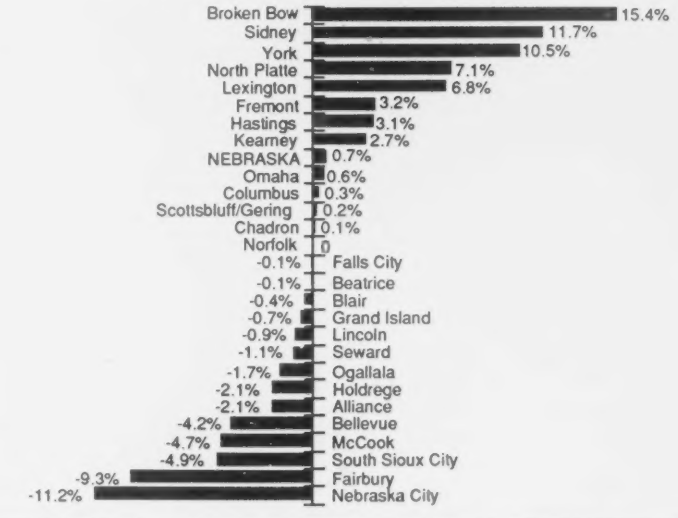
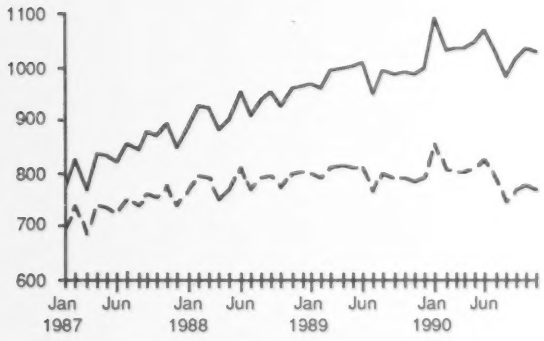


Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) November 1990 (000s)	% Change vs. Year Ago	Region Sales (2) November 1990 (000s)	% Change vs. Year Ago	YTD % Change vs. Year Ago
NEBRASKA	$878,177	4.9	$987,248	4.3	4.9
1 Omaha	299,527	9.0	362,112	6.8	2.8
Bellevue	13,465	5.5	*	*	*
Blair	4,500	5.1	*	*	*
2 Lincoln	120,099	3.6	136,330	3.6	5.3
3 South Sioux City	5,815	2.8	7,508	1.1	21.1
4 Nebraska City	3,763	-4.0	17,009	-0.9	8.4
6 Fremont	17,315	11.0	30,699	8.9	8.0
West Point	3,214	13.7	*	*	*
7 Falls City	2,031	-5.8	8,560	0.7	7.9
8 Seward	4,148	-3.4	13,797	-5.7	5.7
9 York	7,210	9.0	15,465	6.6	4.6
10 Columbus	15,300	1.1	27,123	3.0	6.6
11 Norfolk	21,238	2.2	35,868	5.8	6.4
Wayne	3,001	16.0	*	*	*
12 Grand Island	35,327	-1.0	48,330	0.4	1.7
13 Hastings	15,807	5.3	24,984	6.1	2.8
14 Beatrice	8,007	-2.1	17,359	1.7	10.3
Fairbury	2,896	3.4	*	*	*
15 Kearney	19,969	5.2	27,217	6.1	4.9
16 Lexington	6,250	7.7	16,016	7.3	4.9
17 Holdrege	4,450	-7.6	7,500	-7.6	4.5
18 North Platte	15,972	0.9	20,017	1.4	6.2
19 Ogallala	5,002	-3.3	9,924	-5.9	2.5
20 McCook	8,226	5.6	11,461	3.4	6.1
21 Sidney	3,739	2.1	7,557	2.5	3.8
Kimball	1,672	5.9	*	*	*
22 Scottsbluff/Gering	18,848	4.4	25,626	5.6	4.7
23 Alliance	4,658	-6.7	12,644	-5.1	3.0
Chadron	2,270	-12.7	*	*	*
24 O'Neill	4,138	4.6	14,342	4.4	6.7
Valentine	2,890	15.7	*	*	*
25 Hartington	1,759	23.8	8,577	11.2	8.7
26 Broken Bow	3,820	12.0	11,943	4.4	2.9

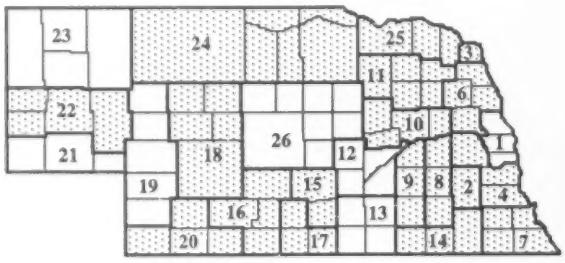
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
*Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars. Solid line indicates current dollars; broken line indicates constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

15 percent to 20 percent. Now there are some positive signs that may indicate our forecast was too pessimistic.

Oil prices have dropped from their October peaks to the same levels we experienced before the August 1 invasion of Kuwait. The Nebraska farmer may escape the impact of increased oil prices.

Corn prices have increased in recent weeks–a trend we hope will be sustained. Cattle prices remain good. Furthermore, Nebraska's February 1, 1991, cattle on feed figure of 2,350,000 head set a record for the state. Nebraska now is the number one state in cattle on feed. Nebraska and Texas frequently exchange the number one role.

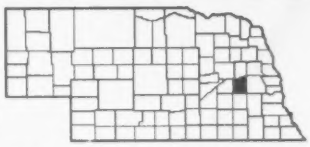
In January, jobs saw a seasonal decrease, but January jobs levels for 1991 were still 4.7 percent higher than the January 1990 jobs levels. This figure is extremely high and compares well to figures in the 2.5 percent to 2.8 percent range that we have seen over the last two and a half years.

Retail sales continue to be slow. Nebraska's current retail sales figures reflect the drop in consumer confidence nationwide. Nevertheless, on a year-to-date basis through November, Nebraska's net taxable retail sales were 4.9 percent ahead of year ago levels in current dollar terms. That figure is slightly behind the corresponding increase in the Consumer Price Index (CPI) (see January 1991 *Business in Nebraska*, Table III).

In conclusion, we see no need to revise the economic projections for Nebraska that appeared in the February 1991 issue of *Business in Nebraska*. We still anticipate that the current national recession will affect the Nebraska economy only modestly.

County of the Month

Butler



David City—County Seat

License plate prefix number: 25
Size of county: 582 square miles, ranks 44th in the state
Population: 8601 in 1990 a change of -7.8 percent from 1980
Median age: 35.2 years in Butler County, 29.7 years in Nebraska in 1980
Per capita personal income: $14,592 in 1988, ranks 31st in the state
Net taxable retail sales ($000): $29,332 in 1989, a change of -1.7 percent from 1988; $27,832 during Jan-Nov. 1990, a change of 4.4 percent from the same period one year ago
Number of business and service establishments: 176 in 1988; 71.6 percent had less than five employees
Unemployment rate: 3.9 percent in Butler County, 3.1 percent in Nebraska for 1989
Nonfarm employment (1989):

	State	Butler County
Wage and salary workers	705,672	1,816
	(percent of total)	
Manufacturing	13.4%	19.3%
Construction and Mining	3.6	3.3
TCU	6.5	2.4
Retail Trade	18.5	17.0
Wholesale Trade	7.6	6.6
FIRE	6.8	3.6
Services	23.7	16.1
Government	19.9	31.7
Total	100.0%	100.0%

Agriculture:
Number of farms: 961 in 1987, 976 in 1982
Average farm size: 376 acres in 1987
Market value of farm products sold: $69.3 million in 1987 ($72,158 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

Business in Nebraska

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